Updated Financial Analysis for G-PISD

Impact of Current Chapter 313 Agreements
Addition of ExxonMobil Projects With and Without New Chapter 313 Agreements
2016-17 through 2037-38 School Years

January 17, 2017
Outline

• School Finance Basics
• Chapter 313 Basics
• G-PISD Chapter 313 Projects
School Finance Basics
School Finance Basics

• Texas public schools are funded from several key sources (2016-17):
  • Local property taxes: $26.2 billion
  • State aid: $19.6 billion
  • Federal funds: $5.1 billion

• State/Local Shares (excluding Federal): 42.7% State/57.3% Local

• State aid and local property taxes are “equalized”
  • The more a school district collects in property taxes, the smaller the share of state aid it receives
  • High-wealth school districts are required to send some of their local taxes to the state to reduce the impact of their wealth advantage over property-poor school districts—commonly called “recapture” or “Robin Hood”
Local School Taxes

• School property tax rate is made up of two components
  • Maintenance-and-operations (M&O) tax rate: funds school district operations, along with state aid
    • Maximum M&O tax rate is $1.17 per $100 of taxable value
    • Used to fund school district operations: teacher salaries, utility bills, transportation, etc.
    • Subject to recapture for the first $1.00 and $1.07-$1.17 portion of the M&O tax rate
  • Interest and sinking (I&S) fund tax rate for voter-approved bonds: may be as much as $0.50 to pay off bonds (higher if needed for unlimited tax bonds)
    • Not subject to recapture

• G-PISD current tax rates:
  • M&O tax rate is $1.17
  • I&S tax rate for bonds is $0.18

• G-PISD is not currently paying recapture—expected by 2018-19 school year under current law and recent estimates
G-PISD Taxes and State Aid: 2016-17 School Year

• Major revenue sources
  • M&O state aid: $15.1 million
  • M&O taxes: $21.7 million
  • I&S taxes: $4.1 million
Major Tax Base Growth Increases Complexity

- Major capital investment projects inject complexity in a school district’s financial planning—current state formula structure (with its schedule always one year behind and annual tax rollback calculations) can be cumbersome from year-to-year

- Unprecedented value changes will require a flexible response
  - Values will change—project timing, valuation differences, other factors
  - Unanticipated changes in the school finance system over the next two decades
  - Recapture will be an issue soon, as early as 2018-19 but especially by 2027-28
  - Annual M&O tax rollback calculations could vary significantly under current law

- Variety of responses will be needed
  - Saving money for future years will be needed in some cases
  - Funding operations out of fund balance and hold-harmless payments in other years
  - Future rollback elections could be needed to maintain a stable M&O tax rate
Chapter 313 Basics
Chapter 313 Property Value Limitations

- State economic development incentive program established by the Texas Economic Development Act in 2001—Chapter 313 of the Tax Code
- Applies only to school districts
- Cities, counties and other local governments may offer tax abatements through Chapter 312 of the Tax Code
- Since the program was approved, there are 311 active value limitation agreements that have been approved by school districts
- $145.7 billion estimated state-wide increase in capital investment for Chapter 313 projects
- 6,562 qualifying jobs for the Chapter 313 agreements approved to date
Mechanics of Chapter 313 Property Value Limitation

• Application is reviewed by the State Comptroller’s Office, which issues a Certificate for the project that indicates it meets all state standards
• School Board approval of findings and agreement is required
• Limitation applies to M&O taxes for a ten-year period
  • Taxpayer pays taxes on $30 million minimum limitation in the case of GPISD
  • Neither school district(s) nor taxpayers ‘lose’ anything: Reduction in M&O tax collections is made up by school funding formulas or hold-harmless payments by the company
• Company pays taxes on full project value for I&S taxes for bonds
• District and company may negotiate supplemental payments of up to $100 per student per year under the agreement for the district’s use
More on Chapter 313 (cont’d)

• **Chapter 313 agreements are not a “giveaway” of local tax dollars**
  • School districts are reimbursed for reduced local taxes by increased state aid, reduced recapture costs and/or hold-harmless payments from companies
  • Companies still pay taxes on limitation amount and full I&S taxes

• **State-endorsed program to encourage major capital investments**
  • Evidence in recent applications that other states are offering more significant incentives than Texas school districts may offer through Chapter 313
G-PISD Chapter 313 Projects
Key Assumptions

• All current Chapter 313 projects are included in our school finance model
• Illustration of the impact of the ExxonMobil, SABIC and GCGV projects with and without Chapter 313 agreements

• Three models:
  • All previously approved projects
  • Addition of ExxonMobil, SABIC and GCGV projects with Chapter 313 agreements
  • Addition of ExxonMobil, SABIC and GCGV projects without Chapter 313 agreements

• Some variation in M&O tax rates to reflect potential rollback election changes

• Added in projected hold-harmless and supplemental payments for each approved project, based on current estimates
Key Assumptions (cont’d)

• I&S tax base could increase from $2.3 billion in 2016-17 to $11.4 billion by 2024-25 with existing projects

• Additional $5.0 billion for I&S tax base in 2024-25 with ExxonMobil projects, with or without Chapter 313 agreements

• Hold-harmless stipulations in current agreements afford G-PISD revenue protection

• Hold-harmless and supplemental payments expected from existing Chapter 313 agreements through 2037-38
  • $125 million in estimated hold-harmless payments
  • $31 million in estimated supplemental payments

• Results are based on current school finance laws
### Summary of G-PISD Approved and Pending Chapter 313 Applications*

<table>
<thead>
<tr>
<th>Project</th>
<th>First Limitation Year</th>
<th>Estimated Peak Project Values (In Mil.)</th>
<th>Projected Recapture Savings (In Mil.)</th>
<th>Projected Supplemental Payments (in Mil.)</th>
<th>Revenue Protection Payments (In Mil.)</th>
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</thead>
<tbody>
<tr>
<td>EC&amp;R Papalote Creek II, LLC</td>
<td>2012-13</td>
<td>$101.5</td>
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<td>CC Liquefaction Train 1</td>
<td>2018-19</td>
<td>$5,141.9</td>
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<td>CC Liquefaction Train 2</td>
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<td>CC Liquefaction Train 3</td>
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<td>voestalpine</td>
<td>2016-17</td>
<td>$599.3</td>
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<td>APEX Clean Energy Holdings, LLC</td>
<td>2017-18</td>
<td>$228.0</td>
<td>$7.4</td>
<td>$5.1</td>
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<td><strong>Total</strong></td>
<td></td>
<td><strong>$10,932.7</strong></td>
<td><strong>$606.5</strong></td>
<td><strong>$31.1</strong></td>
<td><strong>$125.2</strong></td>
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</table>

**ExxonMobil-Related Projects (If Agreements are in Place)**

<table>
<thead>
<tr>
<th>Project</th>
<th>First Limitation Year</th>
<th>Estimated Peak Project Values (In Mil.)</th>
<th>Projected Recapture Savings (In Mil.)</th>
<th>Projected Supplemental Payments (in Mil.)</th>
<th>Revenue Protection Payments (In Mil.)</th>
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<tbody>
<tr>
<td>GCGV Asset Holding, LLC</td>
<td>2024-25</td>
<td>$3,957.3</td>
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<tr>
<td>ExxonMobil Corporation</td>
<td>2024-25</td>
<td>$584.0</td>
<td>$40.3</td>
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<tr>
<td>SABIC US</td>
<td>2024-25</td>
<td>$584.0</td>
<td>$40.3</td>
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<td>$7.4</td>
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<td><strong>Total</strong></td>
<td></td>
<td><strong>$5,125.3</strong></td>
<td><strong>$455.9</strong></td>
<td><strong>$27.0</strong></td>
<td><strong>$68.4</strong></td>
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* Based on Comptroller’s 2016 CDR reports for existing agreements and current estimates for ExxonMobil, including $1.17 M&O tax rate in each year.
Chapter 313 Projects and Jobs

Based on most recent Comptroller report for Toyota, Motiva and current G-PISD projects. ExxonMobil-related projects are based on the ‘minimum’ number of permanent jobs expected to be filled by a determined deadline included in their applications. Excludes construction-related jobs.

### District Company No. of Jobs

<table>
<thead>
<tr>
<th>District</th>
<th>Company</th>
<th>No. of Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southwest ISD</td>
<td>Toyota Motor Manufacturing</td>
<td>2,692</td>
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<tr>
<td>Port Arthur ISD</td>
<td>Motiva Enterprises</td>
<td>762</td>
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<td><strong>G-PISD</strong></td>
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<tr>
<td><strong>Current Projects:</strong></td>
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<td></td>
<td>CC Liquefaction, Trains 1-3</td>
<td>128</td>
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<tr>
<td></td>
<td>voestalpine</td>
<td>79</td>
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<td><strong>Proposed:</strong></td>
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<td></td>
<td>GCGV Asset Holding, LLC</td>
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<td></td>
<td>ExxonMobil Corporation</td>
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<tr>
<td></td>
<td>SABIC US</td>
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<td></td>
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<td>400</td>
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</table>
Key Findings

• As noted previously, combination of hold-harmless and supplemental payments and sound financial practices should provide enough M&O revenue so that district operations are not impeded

• Increased I&S tax base should result in substantial tax savings for G-PISD taxpayers

• Recapture paid to the state between 2017-18 and 2037-38 would increase by as much as $461 million (on top of $729 million for current projects and ExxonMobil with Chapter 313 agreements in place)
  • Foregone supplemental payments for the three projects would total $27 million
  • Foregone hold-harmless amounts estimated to total $68 million
### Net M&O Revenue and Hold-Harmless Amounts for G-PISD

**With Existing Chapter 313 Projects Only**

**2016-17 through 2037-38 School Years (in Millions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net M&amp;O Taxes (Less Recapture)</th>
<th>M&amp;O State Aid</th>
<th>Hold Harmless</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>$39.7</td>
<td>$6.5</td>
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</tr>
<tr>
<td>2017-18</td>
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<td>2018-19</td>
<td>$55.1</td>
<td>$6.1</td>
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<tr>
<td>2019-20</td>
<td>$62.4</td>
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<td>2020-21</td>
<td>$65.3</td>
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<td>2021-22</td>
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<td>$38.5</td>
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<td>2024-25</td>
<td>$36.1</td>
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<td>2031-32</td>
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<td>2032-33</td>
<td>$50.4</td>
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<tr>
<td>2033-34</td>
<td>$51.2</td>
<td>$6.3</td>
<td>$2.7</td>
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Net M&O Revenue and Hold-Harmless Amounts for G-PISD
With Existing Chapter 313 Projects and ExxonMobil WITH Chapter 313 Agreements
2016-17 through 2037-38 School Years (in Millions)
Net M&O Revenue and Hold-Harmless Amounts for G-PISD
With Existing Chapter 313 Projects and ExxonMobil WITHOUT Chapter 313 Agreements
2016-17 through 2037-38 School Years (in Millions)
Recapture Payment Estimates for G-PISD under Current Law
With Existing Chapter 313 Projects Only
2016-17 through 2037-38 School Years (in Millions)
Recapture Payment Estimates for G-PISD under Current Law
With Existing Chapter 313 Projects and ExxonMobil WITH Chapter 313 Agreements
2016-17 through 2037-38 School Years (in Millions)
Recapture Payment Estimates for G-PISD under Current Law
With Existing Chapter 313 Projects and ExxonMobil WITHOUT Chapter 313 Agreements
2016-17 through 2037-38 School Years (in Millions)
Conclusions

• Major changes ahead given the unprecedented level of investment that is anticipated in G-PISD

• Flexibility will be required to manage District’s finances through the next decade and beyond

• Favorable hold-harmless agreements and initial rollback exemptions should provide G-PISD with the resources it needs to fund the District’s operations through a challenging period

• If ExxonMobil projects are added without Chapter 313 agreements in place, recapture payments for G-PISD would increase by nearly $461 million through the 2037-38 school year
Conclusions (cont’d)

• Current existing Chapter 313 projects
  • Substantial tax savings on I&S taxes for voter-approved bonds and supplemental payments estimated at $31 million
  • Companies pay reduced M&O taxes for up to 10 years offset by state formula changes and hold-harmless payments

• Current existing Chapter 313 projects and ExxonMobil WITH Chapter 313 agreements
  • Another $5 billion in taxable value to bolster I&S tax collections (which results in savings for taxpayers)
  • Significant reduction in district recapture payments to the state relative to ExxonMobil without agreements—estimated to be savings of $461 million through the 2037-38 school year
  • Increase of $27 million in supplemental payments for District use
  • Three projects pay M&O taxes based on $30 million each for 10 years, accompanied by state formula offsets and hold-harmless payments to the District
Conclusions (cont’d)

• Current existing Chapter 313 projects and ExxonMobil **WITHOUT** Chapter 313 agreements
  • **Substantial increase** in recapture costs--$461 million higher through 2037-38
  • Results from companies not receiving any tax savings during what would have been the 10-year period of protection under Chapter 313 agreements
  • District would still receive benefits from I&S tax base increase, assuming the project is built
  • Supplemental payments and any excess hold-harmless funds would be surrendered by the District